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INSTITUTIONAL ACCOUNTING IN AN EDUCATIONAL INSTITUTION

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Institutional accounting is a specialized form of accounting used primarily in organizations that are of a non-profit nature such as hospitals, educational and charitable institutions and government. The term, institutional accounting, as used here, however, refers to institutional accounting in an educational institution. This form of accounting is unique in that it is a combination of commercial and fund accounting and the accountable income is limited as to expenditure by the dictates of the donors.

Due to this limitation, the control of expenditures is much more complicated than in the standard forms of accounting. This need for special controls results in accounts and division of accounts found only in this field.

Institutional accounting also differs from that for commercial activities in that there is no direct relationship between revenues and expenditures. In commercial activities revenues are produced by expenditures; but in institutions, except for a relatively small number of service departments which produce some revenue, the income is obtained independently of expenditures.

The income is of a relatively fixed nature, fluctuating slightly as new grants are obtained, enrollment increases or decreases, or as the investment market yields greater or lesser income on endowment investments. Due to this fixed nature of the income, it is extremely important in budgeting expenditures to limit expenditures to available income.

The basic budget, limited by available income and expenditure limitations of the various funds, is approved at the beginning of the year. Adjustments are made throughout the year as income or expense requirements change.

The income budget is set up first. Estimates are made of the various sources of income.

Estimates of tuition income are based upon the number of students in school the previous year adjusted by a percentage

decrease rate developed over a period of years. The number of new students enrolling as freshmen is obtained from the applications submitted to the deans of the colleges. Registration estimates must also reflect adjustments necessitated by such outside conditions as the enforcement of the draft law which reduced materially the number of students and amount of tuition income during the Second World War and the Korean War. The number of students in each college, thus obtained, times the tuition rate in that college gives the tuition income for that college.

Other fees such as laboratory fees and deposits, student union fees, library fees, special book fees, etc., are budgeted on the basis of the estimated number of students in each college.

General Funds income from unrestricted endowments and those restricted to general use of colleges is estimated on the basis of investment income from these endowments as the entire net income of these funds is transferred monthly, directly to General Funds.

Income from other restricted funds does not affect the General Funds Surplus because it is received when expenditures are made from General Funds. Thus, the General Funds income from the restricted funds equals the expenses budgeted for those funds.

Estimated income from city and state taxes, when the University is a municipal institution, is on the basis of reports from the city government as to the funds budgeted by the city for the University's use. The amount changes only when the tax duplicate changes or new laws governing the distribution of funds between city departments are passed.

Income from sales and services of educational departments is estimated on previous experience and furnishes only a very small percentage of the total income of the University.

The income budget varies slightly with the changes in number of students, fluctuations of the investment market and

change in laws governing the tax income. However, it is relatively fixed in nature and the expense budget must be tailored to match it. This is a handicap not faced by commercial organizations. Their expenses increase with increased manufacturing and their income correspondingly increases as they sell more. This condition permits a more flexible budget of future activities.

The expense budget of the institution is controlled at all times by available funds. It is based on the budgets submitted by each dean on the needs of his college for the coming year. Each budget lists each faculty and office employee's salary and the source of funds from which this salary is to be paid. A budget is also set up for supplies and other expenses anticipated, by funds.

Budgets are set up for the auxiliary departments, including dormitories, dining halls and recreational facilities such as the student union and athletics. Budgets of income and expense are received from the heads of these departments and any net income or loss is set up in a budgeted surplus. The activities of these departments do not affect the General Funds Surplus.

The non-educational expenses of financial aid to students in the form of scholarships, grants in aid, fellowships and remission of tuition and fees are budgeted on the basis of applications for such aid submitted by the Deans of the colleges. Income to General Funds to cover those expenditures for restricted funds in this category is included in the income budget. Therefore, only aid expenditures made from General Funds affects the General Funds Surplus.

A complete expense budget layout, as submitted, is made. Where expenditures are to come from restricted funds, each individual fund is checked to see that sufficient money is available or will become available during the year to cover such expenditures. Then the expense budget is totaled. If this exceeds the total available funds shown in the income budget, cuts must be made where possible in order that the final budget, with a cushion for unforeseen expenditures, does not exceed the budgeted income.

In computing a budget, an institution works exactly opposite a commercial organization in that the institution budgets income first to find what is available, then budgets expense to fit income. In a commercial organization the expenses are

budgeted on the basis of what is to be manufactured and sold. The income budget is then obtained on the basis of those sales.

Budget adjustments are made during the year for personnel changes, additional funds received in the forms of gifts and endowments, and changes in anticipated income from tuition. Adjustments can only be made by special budget revisions which must pass through the same hands and obtain the same approval as the original budget. Non-budgeted expenditures cannot be made until the funds are appropriated through a budget revision.

In the educational institution where I am employed, the budget revisions are initiated in the departments where the expenditure is to be made, are sent to the Dean of the College to be approved, then to the office of the Dean of University Administration. Here the budget revision is checked for availability of funds and adherence of the expenditure to the requirements of the restricted fund to be used. If all requirements are met, the revision is then submitted to the Board of Directors for their final approval.

This process is necessary to insure that the expenditures are made properly and will not result in improper or overexpenditure of funds.

The varied limitations on expenditures of funds have made it necessary for us to set up five complete sets of books with asset, liability, surplus, income and expense accounts. Interfund accounts permit transfers of cash as needed.

The five sets of books our institution uses are entitled: General Funds, Expendable Trust Funds, Loan Funds, Endowment Funds and Plant Funds.

General Funds

The General Funds account for money available for immediate use in meeting the current operating needs of the institution. These funds are made up of unrestricted monies from tuition and fees income, public appropriations and tax levies, income from sales and services of outservice departments and unrestricted gifts and grants. These funds are free and unrestricted and their administration is entirely at the discretion of the Board of Directors subject to statutory limitations imposed on us as a municipal as well as educational institution.

In this section of funds appear all receipts and expenditures relating to the educational and research program of the

institution, the auxiliary departments which provide special service facilities such as dining halls, dormitories, and recreational centers, and activities which may appropriately be classified as non-educational, such as the rendering of financial aid to staff and students. The annual budget embraces only this part of the institution's finances. No budgets are compiled for the other four sections.

Expenditures for the account of restricted funds are also made from this section of funds and are included in the expense budget. To cover these expenditures, cash is transferred monthly from each of the restricted funds to the General Funds. Since cash transfers equal expenditures made, restricted funds expenditures do not affect the current operating position of the institution.

The auxiliary departments, whose income and expenses appear in the General Funds section of the records, differ from the general operations of the institution in that they are of a quasi-business character. They are conducted under a policy of self-support. These departments do not affect the operating position as their profits and losses are accumulated in special reserves.

The numerical identification of accounts in the General Funds is a very important part of the control of income and expense accounts and facilitates identification of each. An efficient numbering system of accounts is essential for our punch card system of accounting.

Our asset, income, liability and other accounts are identified by a three digit control number and a six-digit account number. Our expense accounts are made up of a three-digit control number, six-digit account number, six-digit appropriation number and, if a restricted fund expense, a seven-digit fund number.

Our control numbers divide our accounts in their main classifications as follows:

- 000-039 Assets
- 040-064 Liabilities and Reserve
- 065-069 Budget Accounts
- 070-079 Surplus
- 080-099 Income

The Expense accounts are divided according to colleges and other departments. In coding expense accounts any expense pertaining to a certain division always has that control number. To illustrate:

- 100 Administration
- 110 General Expense
- 140 Graduate School

150 Liberal Arts College

160 Teachers College

Each main division has a number of departments. Among the Liberal Arts College divisions are:

150 Administration

151 Biblical Literature

152 Botany

153 Chemistry

This secondary number is used for all expenses in connection with that department of the college as a suffix of the account and appropriation number.

The account number is made up of the three digits of the department number and three more digits: the first two indicating the type of expenses and the third indicating the source of funds.

The two digits indicating type of expense might be:

Salaries 01 Administrative

02 Professors

Supplies 10 Stationery

11 Mimeograph

The last digit indicating source of funds is as follows:

0-6 General Funds

7 Government Contracts

8 Endowment Funds

9 Gift Funds

Therefore, the salary of a professor in the Botany Department of the Liberal Arts College paid from General Funds would be coded: 150 152-020

To this would be added the appropriation number also of six digits. The appropriation also uses the three digits of the department number as a suffix while the last three digits is made up of two digits indicating the type of appropriation and the last digit indicating source of funds. For example:

00 Salaries

10 Stationery & Office Supplies

20 Communications

Therefore, to complete the coding of the professional salary indicated above: Control 150, Account 152-020, Appropriation 152-000.

If instead of the salary being paid from General Funds, it should be paid from Gift Funds the coding would be as follows:

Control 150, Account 152-029, Appropriation 152-009, Fund 570-2122. (The fund coding is explained in the Expendable Trust Fund section of this article.)

With this coding, when this salary expense appears on any journal or ledger it indicates immediately that it is a Liberal

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another proprietorship or have more than a 10% interest in another partnership, either of which is taxable as a domestic corporation under Sec. 1361. (Sec. 1361)

Trust distributions—65 day rule—In order to elect to continue the treatment of distributions made within 65 days following the close of the taxable year as credited on the last day of the preceding taxable year, the trust must have been created prior to January 1, 1954 and may not, under the terms of the trust instrument, distribute in any taxable year amounts in excess of the trust income of the preceding taxable year.

The election applies not only to the trust deduction for distributions to beneficiaries but also to the amounts treated as taxable to the recipient beneficiaries. The election is required to be made for the first taxable year beginning after December 31, 1953 and ending after August 16, 1954 not later than the time the fiduciary return of income is filed. It is irrevocable with respect to the current taxable year and all subsequent taxable years. (Code Sec. 663 (B))

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Arts expense, that it belongs to the Botany Department, that it is a salary expense for a professor from a salary appropriation, and that it is paid from a gift fund, the exact fund indicated by the last four digits 2122.

Other types of salaries may be paid from the same appropriation, i. e. a clerical salary in Botany Department of Liberal Arts paid from General Funds would be: 150 152-070 152-000.

This numbering system is very useful in a punch card system of accounting. With machines, all types of summaries and listings can be made by controlling on various groups of the coding. For instance: by controlling on the control number, all expenses for each college can be listed and totaled; by controlling in the first three digits of the account or appropriation number, a listing can be made of all expenses for any department of the college; by controlling on fourth and fifth digit of account number, a listing can be made of types of expense; while control on last digit of account and appropriation number can give a listing of all general funds, gifts, endowment, and government contract expenses. Any variety of division of expense can be obtained, and listing of some can be made, by use of this system. This coding system also permits a very flexible method of obtaining any type of financial report desired.

The department numbers are also used in the income accounts: to separate tuition income by departments, i. e. 080-150 Liberal Arts Tuition, 080-200 Engineering Tuition; to separate Educational Department Sales and Services, i. e. 087-153 Sales & Services of Liberal Art-Chemistry. Thus the same department numbers are used throughout the system in all transactions connected with that department.

Expendable Trust Funds

The Expendable Trust Funds consist of currently expendable money, the use of which is restricted. These funds are chiefly gifts, grants, and income from endowments which are limited as to purpose of expenditure. The money in these funds, with the exception of net income from unrestricted endowments, is held in suspense pending transfer to General Funds to cover actual expenditures, as previously explained. Net income from unrestricted endowments is transferred monthly in its entirety to General Funds to be spent at the discretion of the Board of Directors.

Complete control of fund expenditure limitation is achieved in this group of funds by the assigning of numbers to the various funds as they are received. A system of 10,000 numbers has been set up as follows:

0-999	Funds Unrestricted
1000-1999	Funds Restricted to General Use of Colleges
2000-2999	Funds Restricted to Specific Instructional Use
3000-3999	Funds Restricted to Specific Research Use

Etc.

These broad classifications are split into administration and general, various colleges, collateral departments, organized research departments and unclassified. If we receive a gift restricted to the salary of a professor in Botany department of Liberal Arts, we would select a number in the 2000 group, as it is restricted to instruction, and within that group, a number between 2050 and 2169 which is the Liberal Arts section of that group. If instead, it was a salary of a professor in Engineering College, we would select a number between 2250 and 2299, the Engineering section.

To facilitate location of the funds within these sections, each section is also divided alphabetically. This division makes it easier to select a fund number and to find the fund after selection.

This numbering system controls the

main fund limitations as to type of expenditure and applicable college. For finer distinction of control, the fund ledger headings give details as to salary or supply expenditure limitations and department of the college or type of research specified in the donor rulings. Through reference to these ledgers, complete control of expenditure to the donors' requirements can be made.

Due to the large number of funds to be controlled and the fact that often only the name is known, an alphabetical listing of all the funds is kept with the fund number. It provides easy reference to ledgers and other source documents.

The fund number, once assigned, is used for all transactions involving that fund. Receipts to fund, expenditures in General Funds for that fund, any purchase of investments or income from such investments are pinned down to said fund by use of that number. Each month, machine accounting can assemble all transactions having that fund number and a fund ledger can be written giving a complete history of that particular fund. This method has proved very satisfactory and has given us a control we found impossible with other systems.

Loan Funds

The Loan Funds comprise money which may be lent to students, members of the faculty and employees. These funds may be restricted as to a specific college or as to a certain student status such as graduate or under-graduate. This section has an independent numbering system involving 3,000 numbers divided by faculty and employees, under-graduate students and graduate students, with collegiate divisions in each group. The control of this group is much simpler since the funds are of a revolving nature, being lent, collected and relent. The accumulated interest and income from temporary investments is credited directly to the funds involved and becomes available, with the principal, to eligible persons in need of financial aid.

Endowment Funds

The Endowment Funds represent money held in perpetual trust for income producing purposes. The principal of the funds must be maintained inviolate. Only the income is available for expenditure. The use to which such income is put is determined by the provisions of the gifts and bequests in which the endowment funds

originated. Some are unrestricted, the income being immediately available for any purpose; others are restricted, the income being available for expenditure only for certain specific purposes; and still others are restricted, the income being available only for addition to the principal of the Loan Funds. In the first two instances, the income is allocated to the Expendable Trust Funds; in the last instance, it is allocated to the Loan Funds. The same number is used for the fund in the Expendable Trust Funds and the Endowment Funds. The prefix 570 designates Expendable Trust Fund and 770 designates Endowment Fund.

To improve methods of control and supervision of endowment investments, we established two investment pools. The first constitutes a medium for investment in securities while the second serves primarily as a medium for real estate investment. Pooling of funds permits investment in larger blocks of securities and more flexibility and greater security of investments. All funds not restricted by prohibitions against joint investment are commingled for investment purposes only. The funds acquire fractional ownership in these pools. Each fund is separately accounted for. Dividends are paid at the end of each quarter at a rate determined annually by the Board of Directors. Said income is credited to the specific expendable trust fund along with income from outside investments. Thus, positive identity of individual gifts and bequests is maintained.

The undistributed portion of the income from the pooled investments and real estate is held in the expendable trust fund group as separate funds until expended in the form of dividends to the participating funds.

Profits and losses realized on liquidations of consolidated investments are cleared into special endowment reserves. Profits or losses realized on unconsolidated investments held by funds restricted from such joint investment are treated as additions to or deductions from the principal of the respective endowment fund. Depreciation on all real estate, both consolidated and unconsolidated, is taken in accordance with a fixed schedule. The operating accounts on said real estate carried under Expendable Trust Funds are appropriately charged, followed by a transfer of cash to a Reserve for Depreciation of Real Estate classified under Endowment Funds.

Plant Funds

The Plant Funds comprise the institution's non-income producing physical property and unexpended money, the use of which is restricted to the extension of such property. In this group of funds are found land and buildings and equipment used for administrative, educational, research and auxiliary purposes. Such property contrasts with the endowment or income-producing property which is held in the Endowment Funds for investment purposes.

Plant Funds property is purchased either from gift and grants or bond issues, credited directly to Plant Funds, or from the General Funds. In the latter case the expenditure is charged to General Funds and the asset set up in Plant Funds with a corresponding increase in Plant Funds Surplus from General Funds Appropriations for Plant Extension.

The department numbers used in the General Funds for expenses and income are also used here to identify property purchased for each department from general or expendable trust funds and carried as an asset in the plant funds. A property listing is made by type of property (land, building, departmental equipment, departmental books, miscellaneous equipment)

and by department—using these department numbers with a three digit suffix indicating type of property.

Depreciation is taken only on the buildings and equipment of the auxiliary departments. The current operating accounts of these departments in the General Funds are charged with such expense and cash transfers are made to their depreciation reserves carried in Plant Funds. No depreciation is taken on physical plant used for educational and research purposes because replacement is obtained by bond issues or gifts and grants. Therefore, these assets appear on our records at cost.

Institutional accounting, although quite different from that for a commercial activity, has many similarities. Like that of a commercial activity, institutional accounting must be based upon sound principles of financial accounting and a careful control of income and expense is utilized. This form of accounting, however, is used primarily to furnish data for reports concerning the financial condition and operation of the institution and to determine the fidelity of the officers responsible for the handling of institution funds. Since the objective is not income determination, the basic outlook is different and results in the variety of accounts and methods shown.

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